

Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name County of Montmorency, Michigan	County Montmorency
Fiscal Year End December 31, 2007	Opinion Date June 13, 2008	Date Audit Report Submitted to State June 27, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma, CPA		License Number 1101024989

County of Montmorency, Michigan

Basic Financial Statements

December 31, 2007

COUNTY OF MONTMORENCY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER	ROGER FRYE
COMMISSIONER	ZACHARY WEAVER
COMMISSIONER	ALBERT LAFLECHE
COMMISSIONER	PAUL WINGATE
COMMISSIONER	GENE THORNTON

ELECTED OFFICIALS

COUNTY TREASURER	WANDA TEETS
COUNTY CLERK	CHERYL NIELSEN

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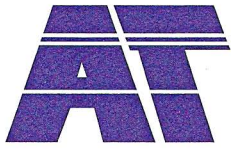
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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Board of Commissioners
County of Montmorency, Michigan
12265 M-32
P.O. Box 789
Atlanta, MI 49709

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Montmorency County Road Commission and Montmorency-Oscoda-Alpena Solid Waste Management Authority, which represent 100% and 100% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by another auditor whose reports have been furnished to us, and our opinions, in so far as it relates to the amounts recorded for the Montmorency County Road Commission and Montmorency-Oscoda-Alpena Solid Waste Management Authority is based on the reports of another auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2008 on our consideration of the County of Montmorency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Montmorency's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 13, 2008

Management's Discussion & Analysis

As management of Montmorency County, we offer readers of the Montmorency County financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

The assets of Montmorency County governmental funds exceed its liabilities at the close of fiscal year, 2007 by \$5,240,554. Of this amount \$574,852 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- * At December 31, 2007, the County's governmental funds reported combined ending fund balances of \$2,759,868.
- * At December 31, 2007, unreserved fund balance for the General Fund was \$548,760 or 13.7% of General Fund expenditures excluding transfers out.
- * Governmental funds revenues were \$ 5,441,810.
- * Total long-term debt in the Governmental Activities was \$763,796 at December 31, 2007 a reduction of \$69,038.
- * In 2007, the County, using funds from the Tax Revolving Fund, remodeled the existing courthouse building.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County financial statements. The County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the County finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows: Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g. accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include legislative, judicial, general government, public safety, public works, health and welfare, and recreation and culture. The business-type activities of the County include delinquent property tax collection and landfill operation which is reported as a component unit.

The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate component units for which the County is financially accountable. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 32 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, considered to be the major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the County's major funds.

The basic governmental fund financial statements can be found on pages 13-14 of this report.

Proprietary Funds – The County maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its delinquent taxes.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 19 of this report.

Notes to the Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-48 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statement. Combining statements and schedules can be found on pages 55-60 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceed liabilities by \$7,146,475 at the close of the most recent fiscal year. A large portion of the County's net assets reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At December 31, 2007 the County had \$681,000 in debt associated with its governmental fund capital assets.

County of Montmorency
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 3,652,183	\$ 3,867,120	\$ 1,909,155	\$ 2,317,531	\$ 5,561,338	\$ 6,184,651
Noncurrent Assets	<u>3,253,126</u>	<u>2,585,808</u>	<u>-</u>	<u>-</u>	<u>3,253,126</u>	<u>2,585,808</u>
Total Assets	<u>\$ 6,905,309</u>	<u>\$ 6,452,928</u>	<u>\$ 1,909,155</u>	<u>\$ 2,317,531</u>	<u>\$ 8,814,464</u>	<u>\$ 8,770,459</u>
Current Liabilities	\$ 957,959	\$ 832,834	\$ 3,234	\$ 2,953	\$ 961,193	\$ 835,787
Noncurrent Liabilities	<u>706,796</u>	<u>961,247</u>	<u>-</u>	<u>-</u>	<u>706,796</u>	<u>961,247</u>
Total Liabilities	<u>1,664,755</u>	<u>1,794,081</u>	<u>3,234</u>	<u>2,953</u>	<u>1,667,989</u>	<u>1,797,034</u>
Net Assets						
Invested in Capital Assets -						
Net of Related Debt	2,572,126	1,826,381	-	-	2,572,126	1,826,381
Restricted	2,093,576	2,247,495	288,326	230,946	2,381,902	2,478,441
Unrestricted	<u>574,852</u>	<u>584,971</u>	<u>1,617,595</u>	<u>2,083,632</u>	<u>2,192,447</u>	<u>2,668,603</u>
Total Net Assets	<u>\$ 5,240,554</u>	<u>\$ 4,658,847</u>	<u>\$ 1,905,921</u>	<u>\$ 2,314,578</u>	<u>\$ 7,146,475</u>	<u>\$ 6,973,425</u>

The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Investment in capital assets, net of related debt, is 36% of total net assets. An additional portion of the County's net assets (33.3%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. All such assets (except for assets invested in capital assets, net of related debt) are considered restricted or unrestricted. The unrestricted portion of the County's net assets is 30.7% of net assets. These net assets may be used to meet the government's ongoing obligations to citizens and creditors.

County of Montmorency
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 1,273,660	\$ 1,197,554	\$ 298,038	\$ 414,660	\$ 1,571,698	\$ 1,612,214
Operating Grants and Contributions	913,400	823,873	-	-	913,400	823,873
Capital Grants and Contributions	19,714	17,000	-	-	19,714	17,000
General Revenues						
Property Taxes	3,067,514	3,528,138	-	-	3,067,514	3,528,138
Other	<u>167,522</u>	<u>238,221</u>	<u>92,140</u>	<u>121,865</u>	<u>259,662</u>	<u>360,086</u>
Total Revenues	<u>5,441,810</u>	<u>5,804,786</u>	<u>390,178</u>	<u>536,525</u>	<u>5,831,988</u>	<u>6,341,311</u>
Program Expenses						
Legislative	121,224	105,483	-	-	121,224	105,483
Judicial	722,485	604,199	-	-	722,485	604,199
General Government	1,530,920	1,640,424	-	-	1,530,920	1,640,424
Public Safety	2,168,125	2,081,007	-	-	2,168,125	2,081,007
Health and Welfare	659,287	609,240	-	-	659,287	609,240
Recreation & Culture	333,750	287,192	-	-	333,750	287,192
Interest on Debt	37,989	40,066	-	-	37,989	40,066
Delinquent Property Tax	<u>-</u>	<u>-</u>	<u>85,158</u>	<u>97,216</u>	<u>85,158</u>	<u>97,216</u>
Total Expenses	<u>5,573,780</u>	<u>5,367,611</u>	<u>85,158</u>	<u>97,216</u>	<u>5,658,938</u>	<u>5,464,827</u>
Change in Net Assets Before Transfers	(131,970)	437,175	305,020	439,309	173,050	876,484
Transfers – Net	<u>713,677</u>	<u>366,000</u>	<u>(713,677)</u>	<u>(366,000)</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	581,707	803,175	(408,657)	73,309	173,050	876,484
Net Assets – Beginning	<u>4,658,847</u>	<u>3,855,672</u>	<u>2,314,578</u>	<u>2,241,269</u>	<u>6,973,425</u>	<u>6,096,941</u>
Net Assets – Ending	<u>\$ 5,240,554</u>	<u>\$ 4,658,847</u>	<u>\$ 1,905,921</u>	<u>\$ 2,314,578</u>	<u>\$ 7,146,475</u>	<u>\$ 6,973,425</u>

Governmental Activities

Governmental activities increased the County's net assets by \$581,707 accounting for all of the total growth in the County's net assets. The main reasons for the change in fund balances and the change in net assets are capital outlays in the current year which are expensed under the modified accrual method are carried as fixed assets under full accrual, and the principal payments on debt that is expensed under the modified accrual method is booked as a reduction in long-term debt under full accrual.

In 2007, the County, using funds from the Tax Revolving fund, remodeled the existing courthouse building.

This year, 2007, was the second year the county treasurer held a tax sale/ auction since P.A. 123 was adopted by the State. This resulted in additional revenue of \$49,691 in the Tax Revolving Fund.

Government activities include:

- * Legislative activities – Expenditures related to the Board of Commissioners and high-level administrative expenditures.
- * Judicial activities– Expenditures related to the administration of Circuit, District, and Probate/Family Courts and Court Probation units.

General government activities – Expenditures related to the support department of the County such as Administration, Equalization, Treasury, Facilities Management, Finance, and Other.

- * Public Safety – Expenditures related to the Sheriff's administration and road patrol and County corrections services.
- * Health and Welfare – Expenditures related to public health services, child care, medical examiner, programs for seniors, and housing assistance programs.
- * Recreation and Culture – Expenditures related to County library.

Business-type Activities

The business-type activities of the County include proprietary operations.

Business-type activities decreased the County's net assets by \$408,657. This decrease occurred after transferring \$713,677 to the governmental funds in 2007. The Delinquent Tax Revolving Fund earned \$305,020 prior to recording the \$713,677 transfer.

Business-type activities include:

- * Delinquent tax revolving fund – This fund was established as a means to provide the local governments within the County's jurisdiction with 100% of the property tax distributions owed to them annually. The County then acts as the collection agency for the outstanding delinquent taxes.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County governmental fund statements is to provide information non near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unreserved fund balance represented 10.6% of annual government expenditures in 2007 in the governmental funds.

The General Fund fund balance increased by \$242,344 from \$306,416 to \$548,760 during 2007. Expenditure growth was highest in judicial, public safety and recreation and culture. Unreserved fund balance of \$548,760 is available for spending at the County's discretion.

Proprietary funds. The County proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

<u>Proprietary Fund</u>	<u>2007 Unrestricted Net Assets</u>
Enterprise Funds	
100% Tax Payment Fund	\$ 1,905,921

Other factors considering the finances of these funds have been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Amended budgetary line items differed from the originally adopted budget mainly for the following reasons:

<u>Revenues / Other Sources</u>	
Other Financing Sources	\$718,900
<u>Expenses:</u>	
Board of commissioners was increased by	\$22,793
Clerk was increased by	\$24,750
Treasurer was increased by	\$21,040
Equalization was increased by	\$63,791
Prosecuting Attorney was increased by	\$30,000
Register of Deeds was increased by	\$20,260

Capital Asset and Debt Administration

Capital Assets – A capital asset is an asset whose cost exceeds \$400 and useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives. A schedule of capital assets is shown on page 32 of this report

The County currently has long-term debt totaling \$763,796 which is a reduction of \$69,038 from 2006.

Economic Factors and Next Year's Budgets and Rates

The taxable value of commercial, residential, and personal property increased 5.74% from 2006 to 2007. This growth is expected to continue.

Montmorency County has seen their revenues increase on a very limited basis while expenses increased at a higher percentage. The County anticipates slow economic growth to continue throughout 2007 and 2008.

The County contracted to renovate the old courthouse with the majority of the renovation work occurring in 2007. The job was contracted on a not to exceed \$750,000 basis.

Requests for Information

This financial report is designed to provide a general overview of the County finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be referred to the Montmorency County Treasurer, P.O Box 789, Atlanta, MI 49709.

Basic Financial Statements

County of Montmorency, Michigan

Statement of Net Assets

December 31, 2007

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Totals	
ASSETS:				
Cash & Investments - Unrestricted	\$ 2,592,039	\$ 1,241,588	\$ 3,833,627	\$ 1,271,362
Cash & Investments - Restricted	-	-	-	2,158,247
Receivables:				
Taxes	713,083	545,530	1,258,613	-
Accounts	29,044	-	29,044	242,819
Interest	-	122,037	122,037	18,611
Notes	195,782	-	195,782	-
Due from Governmental Units	122,235	-	122,235	346,506
Prepaid Expenses	-	-	-	39,344
Inventory	-	-	-	260,258
Capital Assets Not Depreciated	69,078	-	69,078	7,778,667
Capital Assets (Net of Accumulated Depreciation)	3,184,048	-	3,184,048	9,928,348
TOTAL ASSETS	\$ 6,905,309	\$ 1,909,155	\$ 8,814,464	\$ 22,044,162
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 93,858	\$ 2,331	\$ 96,189	\$ 521,619
Accrued Liabilities	85,211	-	85,211	60,855
Due to Governmental Units	23,126	903	24,029	-
Deferred Revenue	698,764	-	698,764	90,000
Notes Payable	7,000	-	7,000	116,373
Bonds Payable	50,000	-	50,000	95,000
Non-current Liabilities:				
Notes Payable	24,000	-	24,000	347,330
Bonds Payable	600,000	-	600,000	535,000
Compensated Absences	82,796	-	82,796	190,067
Estimated Liability for landfill closure & postclosure	-	-	-	4,076,023
TOTAL LIABILITIES	1,664,755	3,234	1,667,989	6,032,267
NET ASSETS:				
Invested in Capital Assets (net of related debt)	2,572,126	-	2,572,126	16,613,312
Restricted (see Note 17)	2,093,576	288,326	2,381,902	365,439
Unrestricted	574,852	1,617,595	2,192,447	(966,856)
TOTAL NET ASSETS	\$ 5,240,554	\$ 1,905,921	\$ 7,146,475	\$ 16,011,895

County of Montmorency, Michigan

Statement of Activities For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 121,224	\$ -	\$ -	\$ -	\$ (121,224)	\$ -	\$ (121,224)	\$ -
Judicial	722,485	247,891	278,946	-	(195,648)	-	(195,648)	-
General Government	1,450,737	306,045	198,954	-	(945,738)	-	(945,738)	-
Public Safety	2,168,125	679,981	248,023	19,714	(1,220,407)	-	(1,220,407)	-
Health & Welfare	659,287	39,743	107,634	-	(511,910)	-	(511,910)	-
Recreation & Culture	333,750	-	79,843	-	(253,907)	-	(253,907)	-
Other	80,183	-	-	-	(80,183)	-	(80,183)	-
Interest - Unallocated	37,989	-	-	-	(37,989)	-	(37,989)	-
Total Governmental Activities	5,573,780	1,273,660	913,400	19,714	(3,367,006)	-	(3,367,006)	-
Business-type Activities:								
Delinquent Tax Collection	85,158	298,038	-	-	-	212,880	212,880	-
Total Business-type Activities	85,158	298,038	-	-	-	212,880	212,880	-
Total Primary Government	<u>\$ 5,658,938</u>	<u>\$ 1,571,698</u>	<u>\$ 913,400</u>	<u>\$ 19,714</u>	<u>(3,367,006)</u>	<u>212,880</u>	<u>(3,154,126)</u>	<u>-</u>
Component Unit:								
Road Commission	\$ 2,463,686	36,661	2,431,818	225,783				230,576
Landfill Authority	1,881,151	2,097,126	-	-				215,975
Total Component Unit	<u>\$ 4,344,837</u>	<u>\$ 2,133,787</u>	<u>\$ 2,431,818</u>	<u>\$ 225,783</u>				<u>446,551</u>
General Revenues and Transfers:								
Taxes					3,067,514	-	3,067,514	-
Convention tax/Cigarette tax					67,625	-	67,625	-
Investment Earnings (Loss)					99,897	92,140	192,037	174,868
Transfers					713,677	(713,677)	-	-
Other					-	-	-	(19,283)
Total General Revenues and Transfers					<u>3,948,713</u>	<u>(621,537)</u>	<u>3,327,176</u>	<u>155,585</u>
Changes in Net Assets					581,707	(408,657)	173,050	602,136
Net Assets - Beginning					4,658,847	2,314,578	6,973,425	15,409,759
Net Assets - Ending					<u>\$ 5,240,554</u>	<u>\$ 1,905,921</u>	<u>\$ 7,146,475</u>	<u>\$ 16,011,895</u>

County of Montmorency, Michigan

Balance Sheet Governmental Funds December 31, 2007

	General	Revenue Sharing Reserve	County Library	Economic Development	Commission On Aging	County Improvement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:								
Cash & Investments	\$ 393,370	\$ 1,468,942	\$ 165,406	\$ 43,852	\$ 54	\$ -	\$ 520,415	\$ 2,592,039
Receivables:								
Taxes	210,101	-	273,503	-	229,479	-	-	713,083
Accounts	11,277	-	-	-	-	-	17,767	29,044
Notes	-	-	-	195,782	-	-	-	195,782
Due from Governmental Units	57,706	-	-	-	-	-	64,529	122,235
TOTAL ASSETS	<u>\$ 672,454</u>	<u>\$ 1,468,942</u>	<u>\$ 438,909</u>	<u>\$ 239,634</u>	<u>\$ 229,533</u>	<u>\$ -</u>	<u>\$ 602,711</u>	<u>\$ 3,652,183</u>
LIABILITIES:								
Accounts Payable	63,865	-	4,198	16	-	-	25,779	93,858
Accrued Liabilities	59,829	-	5,979	-	-	-	10,759	76,567
Due to Other Governmental Units	-	-	-	-	-	-	23,126	23,126
Deferred Revenue	-	-	273,503	195,782	229,479	-	-	698,764
TOTAL LIABILITIES	<u>123,694</u>	<u>-</u>	<u>283,680</u>	<u>195,798</u>	<u>229,479</u>	<u>-</u>	<u>59,664</u>	<u>892,315</u>
FUND BALANCES:								
Reserved	-	1,468,942	155,229	43,836	54	-	425,515	2,093,576
Unreserved:								
Undesignated	548,760	-	-	-	-	-	117,532	666,292
TOTAL FUND BALANCES	<u>548,760</u>	<u>1,468,942</u>	<u>155,229</u>	<u>43,836</u>	<u>54</u>	<u>-</u>	<u>543,047</u>	<u>2,759,868</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 672,454</u>	<u>\$ 1,468,942</u>	<u>\$ 438,909</u>	<u>\$ 239,634</u>	<u>\$ 229,533</u>	<u>\$ -</u>	<u>\$ 602,711</u>	
Reconciliation to amounts reported for governmental activities in the statement of net assets:								
Capital assets used by governmental activities								3,253,126
Long-term notes & leases payable for governmental activities								(681,000)
Compensated absences liability								(82,796)
Accrued interest expense								(8,644)
Net assets of governmental activities								<u>\$ 5,240,554</u>

County of Montmorency, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2007

	General	Revenue Sharing Reserve	County Library	Economic Development	Commission On Aging	County Improvement	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:								
Taxes	\$ 2,585,678	\$ -	\$ 262,060	\$ -	\$ 219,776	\$ -	\$ 28,723	\$ 3,096,237
Licenses & Permits	5,862	-	-	-	-	-	144,429	150,291
Federal Sources	25,345	-	-	-	-	-	19,714	45,059
State Sources	322,759	-	8,154	-	-	-	329,503	660,416
Local Sources	-	-	3,112	-	-	-	-	3,112
Charges for Services	793,650	-	-	-	-	-	300,996	1,094,646
Interest & Rentals	81,221	-	10,910	194	208	-	7,364	99,897
Fines and Forfeitures	11,005	-	59,861	-	-	-	2,000	72,866
Other Revenue	153,599	-	8,716	26,004	-	243	30,724	219,286
TOTAL REVENUES	3,979,119	-	352,813	26,198	219,984	243	863,453	5,441,810
EXPENDITURES:								
Legislative	121,224	-	-	-	-	-	-	121,224
Judicial	696,999	-	-	-	-	-	9,997	706,996
General Government	1,285,409	-	-	5,216	-	-	93,551	1,384,176
Public Safety	1,570,417	-	-	-	-	-	495,451	2,065,868
Health & Welfare	174,335	-	-	-	220,257	-	264,695	659,287
Recreation & Cultural	-	-	325,257	-	-	-	-	325,257
Capital Outlay	52,400	-	10,278	-	-	737,352	50,699	850,729
Debt Service	30,941	-	-	-	-	-	86,100	117,041
Other Expenditures	80,183	-	-	-	-	-	-	80,183
TOTAL EXPENDITURES	4,011,908	-	335,535	5,216	220,257	737,352	1,000,493	6,310,761
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,789)	-	17,278	20,982	(273)	(737,109)	(137,040)	(868,951)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	1,170,684	-	-	-	-	726,404	169,147	2,066,235
Operating Transfers Out	(895,551)	(186,039)	-	-	-	-	(270,968)	(1,352,558)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	242,344	(186,039)	17,278	20,982	(273)	(10,705)	(238,861)	(155,274)
FUND BALANCES, JANUARY 1	306,416	1,654,981	137,951	22,854	327	10,705	781,908	2,915,142
FUND BALANCES, DECEMBER 31	\$ 548,760	\$ 1,468,942	\$ 155,229	\$ 43,836	\$ 54	\$ -	\$ 543,047	\$ 2,759,868

See accompanying notes to financial statements.

County of Montmorency, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2007

Net Changes in fund balances - total governmental funds \$ (155,274)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$850,729 exceeded depreciation (\$183,411) in the current period.

667,318

Repayment of bond and note principal is an expenditure in the governmental fund but reduces the liability in the statement of net assets

78,427

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(9,389)
Accrued Interest on Bonds	<u>625</u>

(8,764)

Changes in net assets of governmental activities

\$ 581,707

**Statement of Net Assets
Proprietary Funds
December 31, 2007**

	Enterprise Funds
	<u>Tax Collections</u>
ASSETS:	
Cash & Investments	\$ 1,241,588
Taxes Receivable	545,530
Accrued Interest Receivable	<u>122,037</u>
 TOTAL ASSETS	 \$ <u><u>1,909,155</u></u>
LIABILITIES:	
Accounts Payable	\$ 2,331
Accrued Liabilities	<u>903</u>
 TOTAL LIABILITIES	 <u>3,234</u>
NET ASSETS:	
Unrestricted	1,617,595
Restricted	<u>288,326</u>
 TOTAL NET ASSETS	 \$ <u><u>1,905,921</u></u>

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2007**

	Enterprise Funds
	<u>Tax Collections</u>
OPERATING REVENUES:	
Charges for Services	\$ 130,198
Interest & Rentals	118,149
Other Revenue	<u>49,691</u>
Total Operating Revenues	<u>298,038</u>
OPERATING EXPENSES:	
Other Supplies and Expenses	<u>70,875</u>
Total Operating Expenses	<u>70,875</u>
OPERATING INCOME (LOSS)	<u>227,163</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest Income	92,140
Interest Expense	<u>(14,283)</u>
Total Non-operating Revenues (Expenses)	<u>77,857</u>
Income (loss) before transfers	305,020
Operating Transfers Out	<u>(713,677)</u>
CHANGES IN NET ASSETS	<u>(408,657)</u>
NET ASSETS, JANUARY 1	<u>2,314,578</u>
NET ASSETS, DECEMBER 31	<u><u>\$ 1,905,921</u></u>

Statement of Cash Flows
Proprietary Fund Types
For the Year Ended December 31, 2007

	Enterprise Funds
	Tax Collections
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 1,426,238
Payments to Suppliers	(1,188,013)
Payments to Employees	(70,594)
<i>Net Cash Provided (Used) by Operating Activities</i>	<u>167,631</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:	
Operating transfers out	(713,677)
<i>Net Cash Provided (Used) by Noncapital and Related Financing Activities</i>	<u>(713,677)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Notes	1,000,000
Interest Payments	(14,283)
Principal Payments	(1,000,000)
<i>Net Cash Provided (Used) by Capital and Related Financing Activities</i>	<u>(14,283)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	92,140
<i>Net Cash Provided (Used) by Investing Activities</i>	<u>92,140</u>
Net Increase (Decrease) in Cash and Equivalents	(468,189)
Balances - Beginning of the Year	1,709,777
Balances - End of the Year	<u><u>\$ 1,241,588</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 227,163
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Change in Assets and Liabilities:	
(Increase)Decrease in Assets:	
Taxes Receivable	(52,982)
Accrued Interest Receivables	(6,831)
Increase(Decrease) in Liabilities:	
Accounts Payable	238
Accrued Liabilities	43
<i>Net Cash Provided (Used) by Operating Activities</i>	<u><u>\$ 167,631</u></u>

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

	<u>Agency Funds</u>
ASSETS:	
Cash & Equivalents:	
Unrestricted	<u>\$ 315,952</u>
 TOTAL ASSETS	 <u><u>\$ 315,952</u></u>
 LIABILITIES:	
Due to Other Governmental Units	\$ 40,965
Undistributed Tax Collections	181,343
Undistributed Receipts	<u>93,644</u>
 TOTAL LIABILITIES	 <u><u>\$ 315,952</u></u>

Component Units

County of Montmorency, Michigan

Statement of Net Assets Component Units December 31, 2007

	Road Commission	Landfill Authority	Totals
ASSETS			
Current Assets:			
Cash & Investments - Unrestricted	\$ 117,006	\$ 1,154,356	\$ 1,271,362
Cash & Investments - Restricted	-	2,158,247	2,158,247
Receivables:			
Accounts	6,944	235,875	242,819
Interest	-	18,611	18,611
Due from Governmental Units	340,800	5,706	346,506
Prepaid Expenses	25,987	13,357	39,344
Inventory	260,258	-	260,258
Total Current Assets	750,995	3,586,152	4,337,147
Noncurrent Assets:			
Capital Assets Not Depreciated	7,614,106	164,561	7,778,667
Capital Assets (Net of Accumulated Depreciation)	6,787,657	3,140,691	9,928,348
Total Noncurrent Assets	14,401,763	3,305,252	17,707,015
TOTAL ASSETS	\$ 15,152,758	\$ 6,891,404	\$ 22,044,162
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 49,345	\$ 472,274	\$ 521,619
Accrued Liabilities	56,144	4,711	60,855
Deferred Revenue	90,000	-	90,000
Notes Payable	84,907	31,466	116,373
Bonds Payable	95,000	-	95,000
Total Current Liabilities	375,396	508,451	883,847
Noncurrent Liabilities:			
Notes Payable	290,665	56,665	347,330
Bonds Payable	535,000	-	535,000
Compensated Absences	190,067	-	190,067
Estimated Liability for landfill closure & postclosure	-	4,076,023	4,076,023
Total Noncurrent Liabilities	1,015,732	4,132,688	5,148,420
TOTAL LIABILITIES	1,391,128	4,641,139	6,032,267
NET ASSETS:			
Invested in Capital Assets (net of related debt)	13,396,191	3,217,121	16,613,312
Restricted for County Roads	365,439	-	365,439
Unrestricted	-	(966,856)	(966,856)
TOTAL NET ASSETS	\$ 13,761,630	\$ 2,250,265	\$ 16,011,895

See accompanying notes to financial statements.

County of Montmorency, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2007

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Landfill Authority	
Road Commission:							
Public Works	\$ 2,463,686	\$ 36,661	\$ 2,431,818	\$ 225,783	\$ 230,576	\$ -	\$ 230,576
Landfill Authority:							
Public Works	1,881,151	2,097,126	-	-	-	215,975	215,975
Total Component Units	<u>\$ 4,344,837</u>	<u>\$ 2,133,787</u>	<u>\$ 2,431,818</u>	<u>\$ 225,783</u>	<u>230,576</u>	<u>215,975</u>	<u>446,551</u>
General Revenues:							
Investment Earnings					10,553	164,315	174,868
Other					-	(19,283)	(19,283)
Total General Revenues					<u>10,553</u>	<u>145,032</u>	<u>155,585</u>
Changes in Net Assets					241,129	361,007	602,136
Net Assets - Beginning					<u>13,520,501</u>	<u>1,889,258</u>	<u>15,409,759</u>
Net Assets - Ending					<u>\$ 13,761,630</u>	<u>\$ 2,250,265</u>	<u>\$ 16,011,895</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Montmorency, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County was organized in 1881 and covers an area of approximately 550 square miles with the County seat located in Atlanta, Michigan. The County operates under an elected Board of Commissioners of five (5) members and provides services, assistance and care to its more than 10,000 residents, primarily from the operations of its General Fund and Special Revenue funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; (6) recreation, and (7) road construction and maintenance.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, criteria was established for various governmental organizations to be included in the reporting entity's financial statement based on legal separation, financial accountability, and fiscal dependency.

Component Units:

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

County of Montmorency Building Authority – The Authority is an entity legally separate from the County. The Authority is governed by a board, appointed by the Commission and is reported as if it were part of the County's operations because its primary purpose is the procurement and management of debt financing for the County.

Discretely Presented Component Units

The component unit's column in the government-wide financial statements include the financial data of the other component units of the County. The following is a summary of those component units:

Montmorency County Road Commission:

The County Road Commission is considered a component unit of the County. Its financial statement is discretely presented in the County basic financial statements as required by accounting principles generally accepted in the United States of America as revised under GASB No.14, as amended by GASB No. 39. The Road Commission is presented discretely as a governmental fund type. This data is reported in a separate column to emphasize that the Road Commission does have an elected Board and for the most part, operates separate from the overall County. Complete financial statements can be obtained directly from the Road Commission office at 11445 M-32, Atlanta, Michigan 49709.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Montmorency-Oscoda-Alpena Solid Waste Management Authority:**

The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB No. 14, as amended by GASB No. 39, is discretely presented as a proprietary(enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, both of whom are members of the legislative body of the municipality.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are charged based upon a countywide cost allocation plan, which allocates costs based on the number of full time equivalents, number of transactions, and the other pertinent information. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as needed.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable

The County of Montmorency property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Montmorency as of the preceding December 31st.

Although the County of Montmorency 2006 ad valorem tax is levied and collectible on December 1, 2006, and 2007 ad valorem tax is levied and collectible on July 1, 2007, it is the County of Montmorency's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax revolving funds within one year.

The December 1, 2006 taxable valuation of the County of Montmorency totaled \$436,587,697 on which ad valorem taxes levied consisted of 1.7185 mills for the County operating, .5930 mills for Library and .4971 mills for Senior Citizen. These amounts are recognized in the respective General and Special Revenue Fund financial statements as revenue.

The July 1, 2007 taxable valuation of the County of Montmorency totaled \$461,636,337, on which ad valorem taxes levied consisted of 5.1553 mills for the General Fund, this amount is recognized in the General Fund.

All other revenue items are considered to be available only when cash is received by the government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Reserve Fund

This fund was established by the State of Michigan during 2004 as a result of legislation that in effect shifted an obligation formerly funded by the State to the local taxpayers by levying taxes sooner.

County Library Fund

This fund reports the activity of the County funded library.

Economic Development

This fund receives grants and provides assistance in the form of loans to start or grow private businesses within the County.

Commission on Aging

This fund is used strictly to collect County wide tax millage which is then appropriated to a private non-profit corporation which is contracted to provide the senior meal programs and other programs for the aged of Montmorency County.

County Improvement

This capital project fund was opened to accumulate and expend funds for capital outlay.

The County reports the following major enterprise fund:

Delinquent Property Tax Fund

This fund is used to pay each local governmental unit, including the County General Fund, the respective amount of taxes not collected as of March 1 of each year. Financing is provided by subsequent collection of delinquent property taxes by the County Treasurer.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the County reports the following fund types:

Special Revenue Funds

These funds are used to account for specific revenues derived primarily from sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

Debt Service Funds

These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Building Authority.

Capital Projects Funds

The Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by enterprise funds or special assessments.

Agency Funds

These funds are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D - Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statement.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$400 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	8 to 50 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: - Under existing union contracts and County policies, all regular full-time employees are eligible for paid leave based on length of service. Vacation days may be carried over for a maximum of 2 years. County employees are allowed to earn up to eight personal days per year as follows: 35 hour work week earns 4.66 hours and a 40 hour work week earns 5.33 hours. Union employees may accumulate up to 25 days (200 hours) or 50 days (400 hours) of personal leave depending on date of hire. Nonunion employees may accumulate up to 3 days (21 hours or 24 hours) of personal leave depending on a 7 or 8 hour work day. Upon termination, employees will be paid at current hourly rate for accumulated days.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1 and lapses on December 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Investments -					
Unrestricted	\$ 2,592,039	\$ 1,241,588	\$ 3,833,627	\$ 315,952	\$ 1,271,362
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,158,247</u>
Total	<u>\$ 2,592,039</u>	<u>\$ 1,241,588</u>	<u>\$ 3,833,627</u>	<u>\$ 315,952</u>	<u>\$ 3,429,609</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit, mutual funds)	\$ 3,826,140	\$ 315,952	\$ 3,427,909
Petty Cash and Cash on Hand	<u>7,487</u>	<u>-</u>	<u>1,700</u>
Total	<u>\$ 3,833,627</u>	<u>\$ 315,952</u>	<u>\$ 3,429,609</u>

Cash is restricted in the Montmorency-Oscoda-Alpena Solid Waste Management Authority for future obligations.

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$400,866 of the County's bank balance of \$712,043 was exposed to credit risk because it was uninsured and uncollateralized.

Custodial investment credit risk. Custodial investment credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$3,477,070 in investments, \$0 is not in the name of the County, but in the name of the agent.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At year end, the County's Primary Government has the following investments at fair value:

<u>Investments</u>	<u>Fair Value</u>	<u>Concentration</u>	<u>Rating</u>
Primary Government: Mutual Funds	\$ 3,477,070	100%	A

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the County and specific funds. They are recorded in County records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 69,078	\$ -	\$ -	\$ 69,078
<i>Capital assets being depreciated:</i>				
Buildings	2,274,034	734,543	-	3,008,577
Equipment	<u>1,429,295</u>	<u>116,186</u>	<u>-</u>	<u>1,545,481</u>
Subtotal	<u>3,703,329</u>	<u>850,729</u>	<u>-</u>	<u>4,554,058</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(613,880)	(52,650)	-	(666,530)
Equipment	<u>(572,719)</u>	<u>(130,761)</u>	<u>-</u>	<u>(703,480)</u>
Subtotal	<u>(1,186,599)</u>	<u>(183,411)</u>	<u>-</u>	<u>(1,370,010)</u>
Net Capital Assets Being Depreciated	<u>2,516,730</u>	<u>667,318</u>	<u>-</u>	<u>3,184,048</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 2,585,808</u>	<u>\$ 667,318</u>	<u>\$ -</u>	<u>\$ 3,253,126</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Judicial	\$ 15,489
General Government	57,172
Public Safety	102,257
Recreation and Culture	<u>8,493</u>
Total Governmental Activities	<u>\$ 183,411</u>

NOTE 4 - CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets for the Montmorency County Road Commission:

	Beginning Balance	Additions	Deductions	Ending Balance
<i>Capital Assets Not Being Depreciated:</i>				
Land and Improvements	\$ 17,476	\$ -	\$ -	\$ 17,476
Land and Improvements & Infrastructure	<u>6,862,154</u>	<u>734,476</u>	<u>-</u>	<u>7,596,630</u>
Subtotal	<u>6,879,630</u>	<u>734,476</u>	<u>-</u>	<u>7,614,106</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings	1,999,378	-	-	1,999,378
Road Equipment	2,847,050	1,110	-	2,848,160
Shop Equipment	42,004	-	-	42,004
Office Equipment	39,801	7,909	-	47,710
Engineers Equipment	7,235	-	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure – Bridges	2,098,789	-	-	2,098,789
Infrastructure - Roads	<u>7,874,161</u>	<u>220,537</u>	<u>-</u>	<u>8,094,698</u>
Subtotal	<u>14,992,058</u>	<u>229,556</u>	<u>-</u>	<u>15,221,614</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(329,996)	(43,765)	-	(373,761)
Road Equipment	(2,257,281)	(140,643)	-	(2,397,924)
Shop Equipment	(29,882)	(3,107)	-	(32,989)
Office Equipment	(31,503)	(2,755)	-	(34,258)
Engineers Equipment	(4,925)	(715)	-	(5,640)
Depletable Assets	(27,940)	-	-	(27,940)
Infrastructure – Bridges	(441,933)	(58,841)	-	(500,774)
Infrastructure - Roads	<u>(4,434,337)</u>	<u>(626,334)</u>	<u>-</u>	<u>(5,060,671)</u>
Subtotal	<u>(7,557,797)</u>	<u>(876,160)</u>	<u>-</u>	<u>(8,433,957)</u>
Net Capital Assets Being Depreciated	<u>7,434,261</u>	<u>(646,604)</u>	<u>-</u>	<u>6,787,657</u>
Total Net Capital Assets	<u>\$ 14,313,891</u>	<u>\$ 87,872</u>	<u>\$ -</u>	<u>\$ 14,401,763</u>

Depreciation expense was charged to operations as follows:

Public Works:	
Primary	\$ 384,101
Local	301,074
Equipment	187,515
Administration	<u>3,470</u>
Total Governmental Activities	<u>\$ 876,160</u>

NOTE 4 - CAPITAL ASSETS (Continued)

The following is a summary of changes for the Montmorency-Oscoda-Alpena Solid Waste Management Authority:

	Beginning Balances	Additions	Deductions	Ending Balances
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 164,561	\$ -	\$ -	\$ 164,561
<i>Capital Assets Being Depreciated:</i>				
Land Improvements	5,822,465	1,623,477	-	7,445,942
Buildings	257,160	5,937	-	263,097
Equipment	1,600,230	374,148	302,218	1,672,160
Subtotal	7,679,855	2,003,562	302,218	9,381,199
<i>Less Accumulated Depreciation</i>	(5,919,613)	(428,830)	107,935	(6,240,508)
Net Capital Assets Being Depreciated	1,760,242	1,574,732	194,283	3,140,691
Total Net Capital Assets	\$ 1,924,803	\$ 1,574,732	\$ 194,283	\$ 3,305,252

Depreciation expense of \$428,830 was charged to the Public Works – Montmorency-Oscoda-Alpena Solid Waste Management Authority.

NOTE 5 - INTERFUND TRANSFERS

TRANSFERS OUT						
TRANSFERS IN		General	Revenue Sharing Reserve	Nonmajor Governmental Funds	Tax Collections	Totals
	General Fund	\$ -	\$ 186,039	\$ 270,968	\$ 713,677	\$ 1,170,684
	County Improvement	726,404	-	-	-	726,404
	Nonmajor Governmental Funds	169,147	-	-	-	169,147
	Total	\$ 895,551	\$ 186,039	\$ 270,968	\$ 713,677	\$ 2,066,235

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent Property Taxes	\$ 502,982	\$ -	\$ 502,982
EDC Loans	<u>-</u>	<u>195,782</u>	<u>195,782</u>
Total	<u>\$ 502,982</u>	<u>\$ 195,782</u>	<u>\$ 698,764</u>

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
\$995,000 Building Authority Bonds, through Rural Development, due in annual installments increasing from \$45,000 to \$50,000 through April 1, 2020, plus interest increasing from 5.0% to 5.65% payable semi-annually.	\$ 700,000	\$ -	\$ 50,000	\$ 650,000	\$ 50,000
Installment Notes					
2007 equipment purchase, payable in annual installments of \$8,579 to \$8,872 including interest of 4.4%, secured by 2007 Ford Expedition and 2006 Sea Pro Boat, maturing in 2011.	<u>38,000</u>	<u>-</u>	<u>7,000</u>	<u>31,000</u>	<u>7,000</u>
Total Governmental Activities	<u>\$ 738,000</u>	<u>\$ -</u>	<u>\$ 57,000</u>	<u>\$ 681,000</u>	<u>\$ 57,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 57,000	\$ 34,681
2009	57,500	31,875
2010	58,000	29,022
2011	58,500	26,110
2012	50,000	23,150
2013-2017	250,000	76,050
2018-2020	<u>150,000</u>	<u>12,700</u>
Total	<u>\$ 681,000</u>	<u>\$ 233,588</u>

The construction cost for the courthouse addition was \$660,000 and \$335,000 was needed at issue date to repay the correctional facility bonds. In future years 34% of the payment is being charged to the correctional facility and 66% to general fund operations.

The Montmorency County Building Authority under PA 31 of 1948 borrowed the funds. The County has pledged its full faith and credit under lease agreements with the Building Authority and is obligated to levy each year, to the extent necessary, ad valorem taxes necessary for payment of the leases. The leases provide the Building Authority with sufficient funds to pay the debt obligation.

A summary of vested benefits payable at December 31, 2007 is as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases/ (Decreases)</u>	<u>Ending Balance</u>
Sick and Vacation	<u>\$ 73,407</u>	<u>\$ 9,389</u>	<u>\$ 82,796</u>

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Michigan Transportation Fund, Series 2003 Bonds, maturing serially through 2013 in annual amounts ranging from \$95,000 to \$115,000 and at interest rates ranging from 2.75% to 3.90%.	\$ 725,000	\$ -	\$ 95,000	\$ 630,000	\$ 95,000
Installment contract secured by (3) International Trucks and related equipment, monthly payments of \$3,400 and \$2,339 including interest of 4.25%, maturing November 2012.	359,708	-	54,635	305,073	57,003

NOTE 7 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment contract secured by Komatsu Dozer, payable in monthly payments of \$1,499 including interest of 4.5%, maturing July 2010.	58,094	-	15,709	42,385	16,351
Installment contract secured by Etnyre trailer, payable in monthly payments of \$818 including interest of 4.30%, maturing July 2010.	31,844	-	8,615	23,229	8,993
Installment contract secured by Ford van, payable in monthly payments of \$243 including interest of 9.40%, maturing October 2009.	<u>7,215</u>	<u>-</u>	<u>2,330</u>	<u>4,885</u>	<u>2,560</u>
Subtotal	1,181,861	-	176,289	1,005,572	<u>\$ 179,907</u>
Compensated Absences (1)	<u>178,662</u>	<u>11,405</u>	<u>-</u>	<u>190,067</u>	
TOTAL LONG-TERM DEBT	<u>\$ 1,360,523</u>	<u>\$ 11,405</u>	<u>\$ 176,289</u>	<u>\$ 1,195,639</u>	

(1) Net increase.

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Component Unit – Road Commission</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 179,907	\$ 36,243
2009	188,288	29,764
2010	180,832	22,887
2011	169,740	16,464
2012	171,805	9,931
2013	<u>115,000</u>	<u>4,485</u>
Total	<u>\$ 1,005,572</u>	<u>\$ 119,774</u>

Compensated Absences – Road Commission

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2007 was \$118,755. Vacation and personal days accumulated created a liability of \$71,312 for a total of \$190,067.

NOTE 7 - LONG-TERM DEBT (Continued)

The following is a summary of pertinent information concerning the Montmorency-Oscoda-Alpena Solid Waste Management Authority's long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Limited Tax Bonds Series 2002, maturing serially through 2007 in annual amounts of \$175,000, interest rate at 3.10%.	\$ 175,000	\$ -	\$ 175,000	\$ -	\$ -
Installment contract with CAT Financial, secured by 730 Caterpillar Truck, monthly payments of \$2,979 including interest of 5.8%, maturing August 2010.	<u>307,043</u>	<u>-</u>	<u>218,912</u>	<u>88,131</u>	<u>31,466</u>
TOTAL LONG-TERM DEBT	<u>\$ 482,043</u>	<u>\$ -</u>	<u>\$ 393,912</u>	<u>\$ 88,131</u>	<u>\$ 31,466</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Component Unit Montmorency-Oscoda-Alpena Solid Waste Management Authority</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 31,466	\$ 4,284
2009	33,341	2,410
2010	<u>23,324</u>	<u>510</u>
Total	<u>\$ 88,131</u>	<u>\$ 7,204</u>

NOTE 8 - SHORT-TERM DEBT

The following is a summary of short-term debt issued to purchase the 2006 Delinquent Taxes:

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:					
General Obligation Limited 2007 Tax Notes Series	Variable	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>

NOTE 9 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2007.

NOTE 10 - LITIGATION

In the normal course of its activities, the County is a party to various legal actions and subject to certain asserted claims and assessments. Although actions have been brought, the County has not experienced any additional significant losses or costs. It is the County's opinion that the outcome of any pending actions will not have a material effect on the County's financial position or results of operations.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the employee 5-year final average compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2006.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

The contribution rate as a percentage of payroll at December 31, 2007 is as follows:

General	20.78%
Sheriff Department	23.92%
Elected and Appointed Officials	30.72%

Annual Pension Cost

During the year ended December 31, 2006, the County's contributions totaling \$357,276 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 0% to 4.2% based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 4,584,826	\$ 4,475,878	\$ 4,836,066
Actuarial Accrued Liability	6,732,334	6,903,023	7,908,964
Unfunded AAL	2,147,508	2,427,145	3,072,898
Funded Ratio	68%	65%	61%
Covered Payroll	1,473,150	1,401,434	1,683,349
UAAL as a Percentage of Covered Payroll	146%	176%	183%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 262,563	100%	\$ 0
2005	267,803	100%	0
2006	357,276	100%	0

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

ROAD COMMISSION

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. Total payroll was \$991,076 for the year. The total contribution to the plan for 2007 was \$51,440.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2007	\$ 1,456,756
Employer Contributions	51,440
Employee Contributions	46,019
Net Investment Earnings and Market Value Increase	179,585
Administrative Fees	(11,787)
Distributions	<u>(97,014)</u>
Total Plan Assets at December 31, 2007	<u>\$ 1,624,999</u>

MONTMORENCY-OSCODA-ALPENA SOLID WASTE MANAGEMENT AUTHORITY

In previous years, the Authority employees were participants in the Montmorency County pension plan. Pension contributions from the Authority for 2007 and 2006 respectively were \$33,673 and \$30,577. In early 2003, the Authority separated their plan from Montmorency County. The December 31, 2006 actuarial report is used in this report. The December 31, 2007 report is not yet available from MERS.

Description of Plan and Plan Assets

The Authority has an agent, multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2006.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining unit and personnel policy, which does not require general employees to contribute to the plan, the Commissioners contribute at a rate of three percent. The Authority was required to contribute at an actuarially determined rate; the current rate was 18.65 percent.

Annual Pension Cost

For year ended December 31, 2006, the Montmorency-Oscoda-Alpena Solid Waste Management Authority's pension cost of \$23,064 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2005, using the age normal cost method. Significant actuarial assumptions used include: (i) an 8 % investment rate of return; (ii) projected salary increases of 0% to 4.2% per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 145,128	\$ 507,573	\$ 541,342
Actuarial Accrued Liability	205,430	686,880	723,865
Unfunded AAL	60,302	179,307	182,523
Funded Ratio	71%	74%	75%
Covered Payroll	157,396	158,129	189,255
UAAL as a Percentage of Covered Payroll	38%	113%	96%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 23,618	100%	\$ 0
2005	23,784	100%	0
2006	23,064	100%	0

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)***LIBRARY***

The Library fund employees left the MERS plan in May of 2004. They set up a Simplified Employee Pension (SEP) administered by National City Bank and its investment department. This plan is a defined contribution plan. The Library fund is required to contribute 8.9% of the employee wages to the plan. For the year ended through December 2007 \$13,591 was contributed to the plan. The Library does not receive a summary statement. Each employee has their separate account and receives the required statements from the bank.

NOTE 12 - DEFERRED COMPENSATION PLAN

Montmorency County offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all County employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

NOTE 13 - POST EMPLOYMENT HEALTH CARE BENEFITS***Primary Government***

In addition to pension benefits described in Note 11, the County employment agreement with the Sheriff's department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All County employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2007, fifteen individuals were eligible for these benefits and the total cost incurred approximated \$73,834.

Component Unit – Road Commission

In addition to pension benefits described in Note 11, the discretely presented component unit Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$519 per month would be paid towards health insurance coverage for any retired employee. During 2007, five retirees received this benefit and \$31,186 in premiums were paid on their behalf.

Component Unit – Montmorency-Oscoda-Alpena Solid Waste Management Authority

In addition to pension benefits described in Note 11, the discretely presented component unit Authority's personnel policy provides for certain post employment health care coverage. All Authority employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2007, two individuals were eligible for these benefits and the total cost incurred approximated \$7,576. This was paid on behalf of former eligible Authority employees.

NOTE 14 - CLOSURE AND POSTCLOSURE CARE COSTS***Component Unit – Montmorency-Oscoda-Alpena Solid Waste Management Authority***

State and federal laws and regulations require that the Montmorency-Oscoda-Alpena Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$4,076,023 as of December 31, 2007, which is based on 60.2% usage (filled) of the landfill for all cells constructed and to be constructed under the current license. It is estimated that an additional \$1,950,630 will be recognized as closure and post closure costs between the date of the statement of net assets and the date the current acreage under license is filled which is estimated to be 2022 at recent rates of refuse received. The estimated total current cost of the landfill closure and post closure is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2007. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Montmorency-Oscoda-Alpena Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County feels it is in compliance with these requirements, and at December 31, 2007, certificates of deposit and other investments in the amount of \$2,158,247 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and postclosure care costs. The estimated expense for closure and postclosure care costs for 2007 was \$294,625.

NOTE 15 - RISK MANAGEMENT***Primary Government***

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

NOTE 15 - RISK MANAGEMENT (Continued)

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles which differ for each type of coverage.

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2007, there were no claims which exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Component Unit – Road Commission

The Road Commission is self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund and also for general liability, vehicle coverage and building coverage. An annual premium is paid to the association and premium rebates or additional amounts due are calculated annually based upon claim history experienced by the Association.

Component Unit – Montmorency-Oscoda-Alpena Solid Waste Management Authority

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. The following is a summary of these self-insurance programs and risk management pool participation.

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

NOTE 15 - RISK MANAGEMENT (Continued)

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2007, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

NOTE 16 - OPERATING LEASES***Component Unit – Road Commission***

<u>Equipment Item</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>
CAT 950GII Wheel Loader	11/15/11	\$ 1,452
CAT 928G Wheel Loader	09/15/11	825
CAT 930G Wheel Loader	09/15/11	824
CAT 140H Motor Grader	12/15/11	1,627
CAT 140H Motor Grader	11/15/11	1,579
CAT 143H Motor Grader	09/15/11	1,404
CAT 613 Scraper	05/08/08	<u>2,758</u>
Total		<u>\$ 10,469</u>

NOTE 17 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES

Net assets restrictions/fund equity reserves can be described as follows:

Revenue Sharing Reserve	\$ 1,468,942	Restricted/Reserved for Revenue Sharing
County Library	155,229	Restricted/Reserved for Fund Purpose
Economic Development	43,836	Restricted/Reserved for Fund Purpose
Commission on Aging	54	Restricted/Reserved for Fund Purpose
Gypsy Moth	105,748	Restricted/Reserved for Fund Purpose
Building Code	15,275	Restricted/Reserved for Fund Purpose
Rod Automation	38,983	Restricted/Reserved for Fund Purpose
911 Services	153,551	Restricted/Reserved for Fund Purpose
HUD	47,909	Restricted/Reserved for Fund Purpose
State Domestic Preparedness	44	Restricted/Reserved for Fund Purpose
Veteran's Affairs	23,692	Restricted/Reserved for Fund Purpose
Veteran's Trust	1,294	Restricted/Reserved for Fund Purpose
Remonumentation	16,563	Restricted/Reserved for Fund Purpose
Building Authority Debt Service	1,728	Restricted/Reserved for Debt Services
Building Authority Capital Project	460	Restricted/Reserved for Capital Outlay
Lake Levels Capital Project	<u>20,268</u>	Restricted/Reserved for Capital Outlay
Total	<u>\$ 2,093,576</u>	

NOTE 18 - REVENUE SHARING RESERVE FUND / TAX LEVY

During 2004, the State of Michigan enacted legislation creating the Revenue Sharing Reserve Fund. All Michigan counties were required to set up the fund which is used to accumulate an additional tax levy which did, over a three year period amount to the 2004 total general operating levy. The county tax levy was previously collected between December and February and was, over the three year period, switched to July through September. The funds can be transferred annually for general operational use based upon a State mandated amount. The effect is to collect one year's tax in advance of previous collections. These funds will be used to offset the loss of State Revenue Sharing. In effect, a previous State obligation has been transferred to the local taxpayers for an extended period of time.

The fund recorded its final taxes as of December 31, 2006, in accordance with State mandated guidelines, which is a change from the way property taxes have previously been recognized.

NOTE 19 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Special Revenue Fund:			
Budget Stabilization	-	227,340	(227,340)

NOTE 20 - SUBSEQUENT EVENTS

The County Board authorized a borrowing of General Obligation Limited Tax Notes, Series to help in funding the buy out of delinquent taxes. The notes will be payable on or before March 1, 2009. The borrowing occurred in April of 2008.

Required Supplementary Information

Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 2,361,671	\$ 2,361,671	\$ 2,585,678	\$ 224,007
Licenses & Permits	6,700	6,700	5,862	(838)
Federal Sources	31,688	31,688	25,345	(6,343)
State Sources	335,223	335,223	322,759	(12,464)
Charges for Services	719,131	724,689	793,650	68,961
Interest & Rentals	30,000	30,000	81,221	51,221
Fines & Forfeitures	6,000	6,000	11,005	5,005
Other Revenue	56,900	85,980	153,599	67,619
TOTAL REVENUES	3,547,313	3,581,951	3,979,119	397,168
EXPENDITURES:				
Legislative:				
Board of Commissioners	103,110	125,903	121,224	4,679
Judicial:				
Circuit Court	141,624	141,624	141,623	1
Family Court	34,025	34,025	34,025	-
District Court	171,959	190,382	198,302	(7,920)
Friend of Court	33,899	33,899	33,898	1
Probate Court	196,150	214,746	209,075	5,671
Jury Commission	1,341	1,347	1,414	(67)
Court Appointed	61,000	61,000	62,200	(1,200)
Other	90,882	27,303	16,462	10,841
Total Judicial	730,880	704,326	696,999	7,327
General Government:				
County Coordinator	79,533	80,008	85,457	(5,449)
County Clerk	153,128	177,878	173,501	4,377
Data Processing	77,415	77,415	80,347	(2,932)
Planning Commission	1,000	1,000	-	1,000
General Services	80,222	85,629	79,673	5,956
Treasurer	138,274	159,314	143,047	16,267
Equalization	73,797	137,588	127,146	10,442
Cooperative Extension	31,850	31,881	28,511	3,370
Elections	2,425	2,427	1,307	1,120
Courthouse & Grounds	131,680	132,730	100,583	32,147
Prosecuting Attorney	230,425	260,425	261,317	(892)
Register of Deeds	118,124	138,384	141,332	(2,948)
County Attorney	20,000	20,000	15,684	4,316
Drain Commissioner	14,509	16,104	17,154	(1,050)
Other	167,553	50,338	30,350	19,988
Total General Government	1,319,935	1,371,121	1,285,409	85,712

Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	637,707	782,426	757,405	25,021
H.U.N.T.	21,263	21,263	21,263	-
Jail	626,369	702,795	685,656	17,139
Emergency Services	19,678	19,678	17,875	1,803
Soil Erosion	625	625	-	625
Animal Control	2,760	2,760	916	1,844
Auto Repair	20,300	43,920	49,485	(5,565)
Other	208,772	62,721	37,817	24,904
Total Public Safety	1,537,474	1,636,188	1,570,417	65,771
Health & Welfare:				
Health Department	78,449	78,449	81,211	(2,762)
Substance Abuse	34,101	34,101	32,788	1,313
Medical Examiner	6,814	9,099	9,297	(198)
Mental Health	31,208	31,208	31,207	1
State Institutions	5,000	5,000	352	4,648
Social Welfare	8,267	8,277	5,248	3,029
Veterans' Service Board	7,000	7,000	3,900	3,100
Veterans' Burial	6,175	6,600	6,220	380
Other	22,708	6,822	4,112	2,710
Total Health & Welfare	199,722	186,556	174,335	12,221
Other Expenditures:				
Dues & Memberships	8,718	8,718	8,693	25
Retiree Health Insurance	77,950	77,950	67,966	9,984
Appropriations	3,525	6,052	3,524	2,528
Total Other Expenditures	90,193	92,720	80,183	12,537
Capital Outlay	-	24,020	52,400	(28,380)
Debt Service	31,080	31,080	30,941	139
TOTAL EXPENDITURES	4,012,394	4,171,914	4,011,908	160,006
EXCESS OF REVENUES OVER EXPENDITURES	(465,081)	(589,963)	(32,789)	557,174
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	513,755	1,232,655	1,170,684	(61,971)
Operating Transfers Out	(161,047)	(971,752)	(895,551)	76,201
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (112,373)	\$ (329,060)	242,344	\$ 571,404
FUND BALANCE, JANUARY 1			306,416	
FUND BALANCE, DECEMBER 31			\$ 548,760	

**Required Supplementary Information
Budgetary Comparison Schedule
Revenue Sharing Reserve
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 695,450	\$ 695,450	\$ -	\$ (695,450)
TOTAL REVENUES	695,450	695,450	-	(695,450)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(695,450)	(695,450)	(186,039)	509,411
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	(186,039)	<u>\$ (186,039)</u>
FUND BALANCE, JANUARY 1			1,654,981	
FUND BALANCE, DECEMBER 31			<u>\$ 1,468,942</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Library
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 249,000	\$ 249,000	\$ 262,060	\$ 13,060
State Sources	7,500	7,500	8,154	654
Local Sources	5,000	5,000	3,112	(1,888)
Fines & Forfeitures	35,000	35,000	59,861	24,861
Interest & Rentals	4,000	4,000	10,910	6,910
Other Revenue	4,000	4,000	8,716	4,716
TOTAL REVENUES	304,500	304,500	352,813	48,313
EXPENDITURES:				
Recreation & Culture	325,400	381,375	325,257	56,118
Capital Outlay	15,000	19,000	10,278	8,722
TOTAL EXPENDITURES	340,400	400,375	335,535	64,840
EXCESS OF REVENUES OVER EXPENDITURES	\$ (35,900)	\$ (95,875)	17,278	\$ 113,153
FUND BALANCE, JANUARY 1			137,951	
FUND BALANCE, DECEMBER 31			\$ 155,229	

**Required Supplementary Information
Budgetary Comparison Schedule
Economic Development
For the Year Ended December 31, 2007**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Federal	\$ 40,000	\$ 40,000	\$ -	\$ (40,000)
Interest & Rentals	100	100	194	94
Other Revenue	25,900	25,900	26,004	104
TOTAL REVENUES	66,000	66,000	26,198	(39,802)
EXPENDITURES:				
General Government	66,000	66,000	5,216	60,784
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	20,982	\$ 20,982
FUND BALANCE, JANUARY 1			22,854	
FUND BALANCE, DECEMBER 31			\$ 43,836	

County of Montmorency, Michigan

Required Supplementary Information Budgetary Comparison Schedule Commission On Aging For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 217,000	\$ 217,000	\$ 219,776	\$ 2,776
Interest & Rentals	-	-	208	208
 TOTAL REVENUES	 217,000	 217,000	 219,984	 2,984
EXPENDITURES:				
Health and Welfare	217,000	217,000	220,257	(3,257)
 EXCESS OF REVENUES OVER EXPENDITURES	 \$ -	 \$ -	 (273)	 \$ (273)
 FUND BALANCE, JANUARY 1			 327	
 FUND BALANCE, DECEMBER 31			 \$ 54	

Other Supplementary Information

County of Montmorency, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	Gypsy Moth	Building Code	Residential Audit	ROD Automation	911 Services	Corrections Officer Training	Law Enforcement Grants	Law Enforcement Training	Law Library
ASSETS:									
Cash & Investments	\$ 105,748	\$ 18,205	\$ 37,430	\$ 49,651	\$ 123,067	\$ 15,495	\$ 10,674	\$ 492	\$ 1,100
Accounts Receivable	-	-	-	-	17,767	-	-	-	-
Due from Governmental Units	-	-	-	-	23,518	-	14,498	-	-
TOTAL ASSETS	<u>\$ 105,748</u>	<u>\$ 18,205</u>	<u>\$ 37,430</u>	<u>\$ 49,651</u>	<u>\$ 164,352</u>	<u>\$ 15,495</u>	<u>\$ 25,172</u>	<u>\$ 492</u>	<u>\$ 1,100</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ 635	\$ -	\$ 10,668	\$ 4,206	\$ -	\$ 852	\$ -	\$ 534
Accrued Liabilities	-	2,295	-	-	6,595	-	1,331	-	-
Due to Other Governmental Units	-	-	23,126	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>2,930</u>	<u>23,126</u>	<u>10,668</u>	<u>10,801</u>	<u>-</u>	<u>2,183</u>	<u>-</u>	<u>534</u>
FUND BALANCES:									
Reserved	105,748	15,275	-	38,983	153,551	-	-	-	-
Unreserved:									
Undesignated	-	-	14,304	-	-	15,495	22,989	492	566
TOTAL FUND BALANCES	<u>105,748</u>	<u>15,275</u>	<u>14,304</u>	<u>38,983</u>	<u>153,551</u>	<u>15,495</u>	<u>22,989</u>	<u>492</u>	<u>566</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 105,748</u>	<u>\$ 18,205</u>	<u>\$ 37,430</u>	<u>\$ 49,651</u>	<u>\$ 164,352</u>	<u>\$ 15,495</u>	<u>\$ 25,172</u>	<u>\$ 492</u>	<u>\$ 1,100</u>

County of Montmorency, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	Budget Stabilization	HUD	Equipment Replacement	State Domestic Preparedness	Michigan Safe Kids	DARE	Victim Advocacy	Child Care	Veterans' Affairs
ASSETS:									
Cash & Investments	\$ -	\$ 47,909	\$ 2,498	\$ 44	\$ 167	\$ 12,318	\$ 990	\$ 38,198	\$ 23,692
Accounts Receivable	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	-	-	-	-	-	10,696	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 47,909</u>	<u>\$ 2,498</u>	<u>\$ 44</u>	<u>\$ 167</u>	<u>\$ 12,318</u>	<u>\$ 990</u>	<u>\$ 48,894</u>	<u>\$ 23,692</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,341	\$ -
Accrued Liabilities	-	-	-	-	-	-	-	-	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,341</u>	<u>-</u>
FUND BALANCES:									
Reserved	-	47,909	-	44	-	-	-	-	23,692
Unreserved:									
Undesignated	-	-	2,498	-	167	12,318	990	41,553	-
TOTAL FUND BALANCES	<u>-</u>	<u>47,909</u>	<u>2,498</u>	<u>44</u>	<u>167</u>	<u>12,318</u>	<u>990</u>	<u>41,553</u>	<u>23,692</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 47,909</u>	<u>\$ 2,498</u>	<u>\$ 44</u>	<u>\$ 167</u>	<u>\$ 12,318</u>	<u>\$ 990</u>	<u>\$ 48,894</u>	<u>\$ 23,692</u>

County of Montmorency, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds			Debt Service Fund	Capital Project Funds		
	Veterans' Trust	Remonument.	Jail Commissary	Building Authority Debt Service	Building Authority Capital Project	Lake Levels Capital Project	Totals
ASSETS:							
Cash & Investments	\$ 1,294	\$ 2,336	\$ 6,630	\$ 1,728	\$ 460	\$ 20,289	\$ 520,415
Accounts Receivable	-	-	-	-	-	-	17,767
Due from Governmental Units	-	15,817	-	-	-	-	64,529
TOTAL ASSETS	<u>\$ 1,294</u>	<u>\$ 18,153</u>	<u>\$ 6,630</u>	<u>\$ 1,728</u>	<u>\$ 460</u>	<u>\$ 20,289</u>	<u>\$ 602,711</u>
LIABILITIES:							
Accounts Payable	\$ -	\$ 1,052	\$ 470	\$ -	\$ -	\$ 21	\$ 25,779
Accrued Liabilities	-	538	-	-	-	-	10,759
Due to Other Governmental Units	-	-	-	-	-	-	23,126
TOTAL LIABILITIES	<u>-</u>	<u>1,590</u>	<u>470</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>59,664</u>
FUND BALANCES:							
Reserved	1,294	16,563	-	1,728	460	20,268	425,515
Unreserved:							
Undesignated	-	-	6,160	-	-	-	117,532
TOTAL FUND BALANCES	<u>1,294</u>	<u>16,563</u>	<u>6,160</u>	<u>1,728</u>	<u>460</u>	<u>20,268</u>	<u>543,047</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,294</u>	<u>\$ 18,153</u>	<u>\$ 6,630</u>	<u>\$ 1,728</u>	<u>\$ 460</u>	<u>\$ 20,289</u>	<u>\$ 602,711</u>

County of Montmorency, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds								
	Gypsy Moth	Building Code	Residential Audit	ROD Automation	911 Services	Corrections Officer Training	Law Enforcement Grants	Law Enforcement Training	Law Library
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	144,429	-	-	-	-	-	-	-
Federal Sources	-	-	-	-	-	-	-	-	-
State Sources	-	-	-	-	98,554	-	65,663	2,986	-
Charges for Services	-	-	2,489	24,810	209,053	5,536	-	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	2,000
Interest Income	-	-	-	-	-	-	-	-	-
Other Revenue	-	-	-	-	-	-	14,041	-	-
TOTAL REVENUES	-	144,429	2,489	24,810	307,607	5,536	79,704	2,986	2,000
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	9,997
General Government	-	-	7,833	23,658	-	-	-	-	-
Public Safety	-	134,872	-	-	265,178	180	68,466	4,920	-
Health and Welfare	-	-	-	-	-	-	-	-	-
Capital Outlay	-	3,082	-	1,900	-	-	15,698	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	137,954	7,833	25,558	265,178	180	84,164	4,920	9,997
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	6,475	(5,344)	(748)	42,429	5,356	(4,460)	(1,934)	(7,997)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	-	3,182	2,000	7,865
Operating Transfers Out	-	-	-	-	-	-	(35,000)	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	6,475	(5,344)	(748)	42,429	5,356	(36,278)	66	(132)
FUND BALANCES, JANUARY 1	105,748	8,800	19,648	39,731	111,122	10,139	59,267	426	698
FUND BALANCES, DECEMBER 31	\$ 105,748	\$ 15,275	\$ 14,304	\$ 38,983	\$ 153,551	\$ 15,495	\$ 22,989	\$ 492	\$ 566

County of Montmorency, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

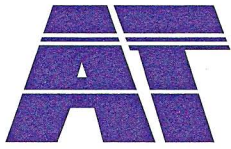
	Special Revenue Funds								
	Budget Stabilization	HUD	Equipment Replacement	State Domestic Preparedness	Michigan Safe Kids	DARE	Victim Advocacy	Child Care	Veterans' Affairs
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-	-	-	-	-
Federal Sources	-	-	-	19,714	-	-	-	-	-
State Sources	-	-	-	-	-	-	-	90,992	-
Charges for Services	-	8,814	-	-	-	-	-	30,929	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	-
Interest Income	2,487	4,877	-	-	-	-	-	-	-
Other Revenue	-	-	-	-	-	9,555	940	5,259	-
TOTAL REVENUES	2,487	13,691	-	19,714	-	9,555	940	127,180	-
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	959	-	-	-
Health and Welfare	-	104,231	-	-	-	-	-	160,141	-
Capital Outlay	-	-	10,300	19,719	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	104,231	10,300	19,719	-	959	-	160,141	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,487	(90,540)	(10,300)	(5)	-	8,596	940	(32,961)	-
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	-	-	60,000	-
Operating Transfers Out	(227,340)	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(224,853)	(90,540)	(10,300)	(5)	-	8,596	940	27,039	-
FUND BALANCES, JANUARY 1	224,853	138,449	12,798	49	167	3,722	50	14,514	23,692
FUND BALANCES, DECEMBER 31	\$ -	\$ 47,909	\$ 2,498	\$ 44	\$ 167	\$ 12,318	\$ 990	\$ 41,553	\$ 23,692

County of Montmorency, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds			Debt Service Fund	Capital Project Funds		
	Veterans' Trust	Remonument.	Jail Commissary	Building Authority Debt Service	Building Authority Capital Project	Lake Levels Capital Project	Totals
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,723	\$ 28,723
Licenses and Permits	-	-	-	-	-	-	144,429
Federal Sources	-	-	-	-	-	-	19,714
State Sources	888	70,420	-	-	-	-	329,503
Charges for Services	-	-	19,365	-	-	-	300,996
Fines and Forfeitures	-	-	-	-	-	-	2,000
Interest Income	-	-	-	-	-	-	7,364
Other Revenue	-	-	-	-	-	929	30,724
TOTAL REVENUES	888	70,420	19,365	-	-	29,652	863,453
EXPENDITURES:							
Judicial	-	-	-	-	-	-	9,997
General Government	-	62,060	-	-	-	-	93,551
Public Safety	-	-	16,821	-	-	4,055	495,451
Health and Welfare	323	-	-	-	-	-	264,695
Capital Outlay	-	-	-	-	-	-	50,699
Debt Service	-	-	-	86,100	-	-	86,100
TOTAL EXPENDITURES	323	62,060	16,821	86,100	-	4,055	1,000,493
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	565	8,360	2,544	(86,100)	-	25,597	(137,040)
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	-	10,000	-	86,100	-	-	169,147
Operating Transfers Out	-	(2,000)	(628)	-	-	(6,000)	(270,968)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	565	16,360	1,916	-	-	19,597	(238,861)
FUND BALANCES, JANUARY 1	729	203	4,244	1,728	460	671	781,908
FUND BALANCES, DECEMBER 31	\$ 1,294	\$ 16,563	\$ 6,160	\$ 1,728	\$ 460	\$ 20,268	\$ 543,047

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and Members
of the Board of Commissioners
County of Montmorency, Michigan
12265 M-32
P.O. Box 789
Atlanta, MI 49709

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the County of Montmorency, Michigan, as of and for the year ended December 31, 2007, which collectively comprise Montmorency County's basic financial statements and have issued our report thereon, dated June 13, 2008. Our report was modified to include a reference to another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the Montmorency County Road Commission and Montmorency-Oscoda-Alpena Solid Waste Management Authority's financial Statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Montmorency, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Honorable Chairman and Members
of the Board of Commissioners
County of Montmorency, Michigan

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Montmorency, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 07-1.

We noted certain matters that we reported to management of the County of Montmorency, Michigan in a separate letter dated June 13, 2008.

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the County's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 13, 2008

Statutory Compliance

Excess Expenditures Over Appropriations

Finding 07-1

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2007 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Special Revenue Fund:			
Budget Stabilization	-	227,340	(227,340)

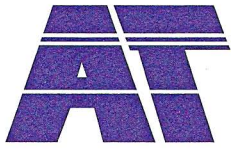
Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budget for the Special Revenue Fund during the year.

Recommendation: We recommend that the County and personnel responsible for administering the activities of the various funds of the County, develop budgetary control procedures for the Special Revenue Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- Contact Person(s) Responsible for Correction:
Robert Goodall, County Coordinator
- Anticipated Date of Correction:
Fiscal 2008



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Chairman and Members
of the Board of Commissioners
County of Montmorency, Michigan
12265 M-32
P.O. Box 789
Atlanta, MI 49709

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan for the year ended December 31, 2007, and have issued our report thereon dated June 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 9, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County of Montmorency, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Montmorency, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Montmorency, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Montmorency, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Montmorency, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on June 2, 2008.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Montmorency, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 13, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations – Prior Year

Departments

Library

The in-lieu of health insurance incentive was \$150 per month while the County policy is \$125.

Vendor invoices presently show no indication of approval for payment. I suggest obtaining a stamp that would give a spot for approving receipt of the goods or services, administrator approval and board approval.

A credit card is regularly used by the library, but the procedures required under PA 266 of 1995 have never been formally adopted by the library board. In most instances no bills were attached to the credit card billing. Instead, the bill was the basis for support. All supporting invoices must be attached.

District Court

The two bank accounts for imprest and trust purposes are not presently reconciled to a ledger balance. They must be recorded in the ledger and then timely reconciled each month.

Treasurer

There are numerous Trust and Agency accounts which need to be reconciled and while much of the detail data is not available in the Treasurer's Office, the Treasurer should take the leadership role in working with the various departments to set up procedures so that these accounts are reconciled periodically, preferably monthly.

The County investment policy should be periodically reviewed for potential update and reaffirmed at the annual organizational meeting. This is more critical now with the large array of financial products available to the market place today.

Sheriff

The inmate trust bank account is not recorded on the County ledger and is not reconciled by the treasurer's office. This must be done. The software used by the sheriff's office should be accessible by the treasurer and used in the reconciliation process.

Other / General

The County Board should annually approve all of the County Depositories, not just the primary ones, preferably at the organizational meeting in January. This could be done from a list prepared by the Treasurer.

The Board of Commissioners meet regularly throughout the year in committees such as claims and accounts, finance, building and grounds, etc. Minutes have never been formalized for these meetings even though the items discussed in those meetings become a basis for decisions made by the full board.

Mileage Reimbursement

The Department of Treasury has recently attempted to clarify the legality of payment for mileage reimbursement from home to the County building and back for County meetings. County commissioners can receive these reimbursements, however, it is Treasury's position that this is a personal expenditure under Internal Revenue Service guidelines as well as Michigan Income Tax requirements and should be included in the Commissioner's W-2 wage.

It is further their position that non-commissioners appointed to various boards such as housing, jury, etc. are not permitted to receive a mileage allowance.

Comments and Recommendations – Current

Personal Property Taxes

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Fraud Policy

With the implementation of statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The board does not have a “fraud policy” which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Electronic Banking

State law requires that a policy regarding electronic banking be established and approved by the Commission. This policy determines who is responsible for activating electronic transactions and the types of transactions which will be made.

Capitalization Policy

GASB 34 requires that the Board adopt a capitalization threshold for depreciation of capital assets and infrastructure. The Board currently capitalizes assets above \$400; however, this amount should be authorized by Board Policy. Also, we recommend increasing the policy threshold be increased to \$5,000.

Budgeting

The County adopted its budget expenditures in excess of budgeted revenues and beginning fund balances. The budget adopted for the General Fund had budgeted expenditures in excess of budgeted revenue and beginning fund balance. This fund should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Montmorency required to implement the Statement for the year ended December 31, 2009, GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2009, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 13, 2008